

Temenos announces outstanding FY 2016 with total software licensing growth of 21% and earnings growth of 20%

GENEVA, Switzerland, 14 February 2017 – Temenos Group AG (SIX: TEMN), the software specialist for banking and finance, today reports its fourth quarter and full year 2016 results.

<i>USDm, except EPS</i>	Non-IFRS						IFRS					
	Q4 16	Change	CC*	FY 16	Change	CC*	Q4 16	Change	CC*	FY 16	Change	CC*
Software licencing	78.7	19%	22%	205.1	18%	20%	78.7	19%	23%	205.1	19%	21%
SaaS and subscription	13.1	14%	15%	51.1	26%	26%	12.8	75%	78%	50.1	89%	89%
Total software licencing	91.8	18%	21%	256.2	20%	21%	91.5	25%	28%	255.1	28%	30%
Maintenance	65.1	5%	8%	250.4	6%	9%	65.1	5%	9%	250.4	7%	9%
Services	34.1	2%	3%	128.5	17%	19%	34.1	2%	4%	128.5	18%	19%
Total revenues	191.1	10%	13%	635.1	14%	16%	190.8	13%	16%	634.0	17%	19%
EBIT	74.8	15%	18%	186.5	19%	19%	66.5	33%	38%	149.2	54%	55%
EBIT margin	39.1%	2% pts	2% pts	29.4%	1% pts	1% pts	34.8%	5% pts	5% pts	23.5%	6% pts	5% pts
EPS (USD)	0.88	21%		2.07	20%		0.77	43%		1.61	69%	

The definition of non-IFRS adjustments is below and a full reconciliation of IFRS to non-IFRS results can be found in Appendix II

** Constant currency (c.c.) adjusts prior year for movements in currencies*

Q4 and FY 2016 highlights

- Outstanding performance in 2016, after landmark 2015
- Growth across all geographies, Europe and Asia particularly strong
- Digitalization and cost focus continue to drive strategic decision making and market growth
- Vendor of choice for Tier 1 banks, won all key deals in the market
- U.S. momentum and credibility with Commerce Bank win and Ally Financial go-live
- Strong pipeline growth, breadth and depth of deals gives confidence for 2017
- Proposed acquisition of Rubik announced today, accelerating growth in the Australian market

Q4 and FY 2016 financial summary

- Non-IFRS total software licensing revenues up 21% in Q4 16 and up 21% in FY 16 (c.c.)
- Non-IFRS maintenance growth of 8% in Q4 16 and 9% in FY 16 (c.c.)
- Non-IFRS EBIT up 18% in Q4 16, FY 16 non-IFRS EBIT margin of 29.4%
- FY 16 non-IFRS EPS increase of 20% to USD 2.07
- FY 16 non-IFRS services margin improvement of 64bps to 9.1%
- FY 16 cash conversion of 114%
- DSOs down 27 days Y-o-Y to 127 days
- Profit and cashflow strength support proposed dividend of CHF 0.55, a 22% annual increase
- 2017 guidance of non-IFRS total software licensing growth of 10% to 15%, non-IFRS revenue growth of 7.5% to 11.0% (c.c.) and non-IFRS EBIT of USD 210m to 215m

Commenting on the results, **Temenos CEO David Arnott said:**

“2016 has been another outstanding year for Temenos, coming off the back of a record 2015. We have had growth across all geographies, driven by our market leading value proposition which is resonating with financial institutions around the globe. I am particularly pleased with our traction with Tier 1 and 2 banks, where we won all the largest deals in the market. Our clients are under intense pressure and are responding by embarking on IT renovation with digital at the heart of their strategies. In this environment our vertically integrated suites comprising core coupled with digital and analytics, is seen as the benchmark for the market.

We have continued to make good progress on our strategic initiatives, and are the clear market leader in both retail and wealth. We have built great momentum and credibility in the U.S. with the Commerce Bank win, and our ecosystem of strategic partners is maturing. With the underlying market growth and our unique value proposition, I am confident we will continue to take market share in 2017.”

Commenting on the results, **Temenos CFO and COO Max Chuard said:**

“I am very pleased with our performance in 2016, having grown our total software licensing by 21% and our earnings by 20%. We have achieved this rate of revenue growth whilst also delivering significant margin expansion of 128bps year-on-year. With EPS growing 20% in 2016, and our cash flow generation which remains significantly above our target of 100% of EBITDA, I am pleased to recommend a 2016 dividend of CHF 0.55 which is an increase of 22% on last year.

We continue to expect strong growth in 2017, and are guiding for non-IFRS total software licensing growth of 10% to 15% and non-IFRS total revenue growth of between 7.5% and 11.0%. We are guiding for 2017 non-IFRS EBIT of USD 210m to 215m, which implies a margin of around 31%. With more of our customers embarking on progressive renovation and the growth and quality of our pipeline, I am confident in delivering another year of strong growth.”

Revenue

IFRS revenue for the quarter was USD 190.8m, up from USD 168.4m in Q4 2015. Non-IFRS revenue was USD 191.1m for the quarter, up from USD 173.4m in Q4 2015, representing an increase of 13% in constant currencies. IFRS total software licensing revenue for the quarter was USD 91.5m, and non-IFRS total software licensing revenue for the quarter was USD 91.8m, an increase of 21% from Q4 2015 in constant currencies.

EBIT

IFRS EBIT was USD 66.5m this quarter, up from USD 50.1 in Q4 2015. Non-IFRS EBIT was USD 74.8m in Q4 2016, an increase of 18% in constant currencies. Q4 2016 non-IFRS EBIT margin was 39.1%, up 2% points on Q4 2015.

Earnings per share (EPS)

IFRS EPS for the quarter was USD 0.77, an increase of 43% vs. Q4 2015. Non-IFRS EPS was 0.88 for the quarter vs. USD 0.73 in Q4 2015. For FY 2016, non-IFRS EPS was USD 2.07, and increase of 20%

Operating cash flow

For FY 2016 IFRS operating cash was an inflow of USD 256.0m compared to USD 227.0m in FY 2015, representing a conversion of 114% of IFRS EBITDA into operating cash.

Dividend

Taking into account the strength of profit growth and cash generation, as well as the expected strength of future cashflows, subject to shareholder approval at the AGM on 10 May 2017, Temenos intends to pay a dividend of CHF 0.55 per share for 2016. The shares will trade ex-dividend on 15 May 2017, and the dividend record date will be set on 16 May 2017. The dividend will be paid on 17 May 2017. As with previous years, the 2016 dividend will be paid as a distribution of capital contribution reserves and therefore be exempted of withholding tax. Temenos' policy is to distribute a sustainable to growing dividend.

2017 guidance

Our guidance for 2017, which excludes the impact of the proposed acquisition of Rubik, is as follows:

- Non-IFRS total software licensing growth at constant currency of 10% to 15% (implying total software licensing revenue of USD 276m to USD 288m)
- Non-IFRS revenue growth at constant currency of 7.5% to 11.0% (implying revenue of USD 667m to USD 689m)
- Non-IFRS EBIT at constant currency of USD 210m to 215m (implying non-IFRS EBIT margin of c.31%)
- 100%+ conversion of EBITDA into operating cashflow
- Tax rate of 14% to 15%

Medium term targets

Our medium term targets are as follows:

- Non-IFRS total software licensing growth of 15% CAGR
- Non-IFRS revenue growth of 10% CAGR
- Non-IFRS EBIT margin improvement of 100 to 150bps on average p.a.
- Non-IFRS EPS growth of 15% CAGR
- Cash conversion over 100% of EBITDA p.a.
- DSOs reducing by 5-10 days p.a.
- Tax rate of 17% to 18%

Currency assumptions for 2017 guidance

In preparing the 2017 guidance, the Company has assumed the following:

- USD to Euro exchange rate of 0.955;
- USD to GBP exchange rate of 0.811; and
- USD to CHF exchange rate of 1.025.

Conference call

At 18.30 CET / 17.30 GMT / 12.30 EST, today, 14 February 2017, David Arnott, CEO, and Max Chuard, CFO and COO, will host a conference call to present the results and offer an update on the business outlook. Listeners can access the conference call using the following dial in numbers:

0800 920 016	(Swiss Free Call)
1 866 966 1396	(USA Free Call)
0800 376 7922	(UK Free Call)
+44 (0) 207 192 8000	(UK and International)

Conference ID # 63937135

A transcript will be made available on the Company website 48 hours after the call. Presentation slides for the call can be accessed using the following link: <http://www.temenos.com/en/about-temenos/investor-relations/results-and-presentations/>.

Non-IFRS financial information

Readers are cautioned that the supplemental non-IFRS information presented in this press release is subject to inherent limitations. It is not based on any comprehensive set of accounting rules or principles and should not be considered as a substitute for IFRS measurements. Also, the Company's supplemental non-IFRS financial information may not be comparable to similarly titled non-IFRS measures used by other companies. In the reconciliation of IFRS to non-IFRS found in Appendix II, the Company sets forth the most comparable IFRS financial measure and reconciliations of this information with non-IFRS information. The Company's non-IFRS figures exclude any deferred revenue write-down resulting from acquisitions, discontinued activities that do not qualify as such under IFRS, acquisition related charges such as advisory fees and integration costs, charges as a result of the amortisation of acquired intangibles, costs incurred in connection with a restructuring plan implemented and controlled by management, and adjustments made to reflect the associated tax charge relating to the above items.

Below are the accounting elements not included in the 2017 non-IFRS guidance:

- FY 2017 estimated amortisation of acquired intangibles of USD 32m
- FY 2017 estimated restructuring costs of USD 5m

Restructuring costs include realising R&D, operational and infrastructure efficiencies. These estimates do not include impact of any further acquisitions or restructuring programmes commenced after 14 February 2017.

The above figures are estimates only and may deviate from expected amounts.

Investor and media contacts

Investors

Adam Snyder
Head of Investor Relations, Temenos
Email: asnyder@temenos.com
Tel: +41 22 708 1515

Media

Callum McCaig
PPR for Temenos
Email: callum.mccaig@pprww.com
Tel: +44 207 300 6360



About Temenos

Temenos Group AG (SIX: TEMN), headquartered in Geneva, is a market leading software provider, partnering with banks and other financial institutions to transform their businesses and stay ahead of a changing marketplace. Over 2,000 firms across the globe, including 38 of the top 50 banks, rely on Temenos to process the daily transactions of more than 500 million banking customers. Temenos customers are proven to be more profitable than their peers: over a seven year period, they enjoyed on average a 31% higher return on assets, a 36% higher return on equity and an 8.6 percentage point lower cost/income ratio than banks running legacy applications.

For more information please visit www.temenos.com

Appendix I – Q4 and FY 2016 IFRS primary statements
TEMENOS GROUP AG

All amounts are expressed in thousands of US dollars

except earnings per share

	Three months to 31 December 2016	Three months to 31 December 2015	Twelve months to 31 December 2016	Twelve months to 31 December 2015
Revenues				
Software licensing	78,717	65,977	205,081	172,951
SaaS & subscription	12,825	7,308	50,058	26,452
Total software licensing	91,542	73,285	255,139	199,403
Maintenance	65,128	61,774	250,371	233,956
Services	34,124	33,329	128,526	109,144
Total revenues	190,794	168,388	634,036	542,503
Operating expenses				
Sales and marketing	33,889	29,810	114,603	105,880
Services	27,259	27,582	117,192	101,521
Software development and maintenance	44,779	42,047	178,669	161,177
General and administrative	18,393	18,806	74,349	77,168
Total operating expenses	124,320	118,245	484,813	445,746
Operating profit	66,474	50,143	149,223	96,757
Other expenses				
Net interest expenses	(3,446)	(4,350)	(15,295)	(15,375)
Borrowing facility expenses	(420)	(342)	(1,567)	(2,143)
Foreign exchange gain/(loss)	752	(691)	(254)	(1,156)
Total other expenses	(3,114)	(5,383)	(17,116)	(18,674)
Profit before taxation	63,360	44,760	132,107	78,083
Taxation	(7,450)	(6,439)	(16,273)	(11,739)
Profit for the period	55,910	38,321	115,834	66,344
Earnings per share (in USD):				
basic	0.81	0.58	1.69	1.01
diluted	0.77	0.54	1.61	0.95
non-IFRS	0.88	0.73	2.07	1.73

TEMENOS GROUP AG

All amounts are expressed in thousands of US dollars

	31 December 2016	30 September 2016	31 December 2015
Assets			
Current assets			
Cash and cash equivalents	194,340	115,836	193,252
Trade receivables	208,802	208,728	221,828
Other receivables	27,024	30,306	25,734
Total current assets	430,166	354,870	440,814
Non-current assets			
Property, plant and equipment	15,788	16,317	15,610
Intangible assets	690,097	726,349	737,998
Trade receivables	12,801	9,529	13,865
Other receivables	3,649	3,696	3,380
Deferred tax assets	19,001	18,089	17,307
Total non-current assets	741,336	773,980	788,160
Total assets	1,171,502	1,128,850	1,228,974
Liabilities and equity			
Current liabilities			
Trade and other payables	114,327	92,507	104,019
Deferred revenues	216,251	163,623	213,197
Income tax liabilities	28,992	30,753	24,683
Borrowings	102,780	105,882	15,011
Total current liabilities	462,350	392,765	356,910
Non-current liabilities			
Borrowings	269,182	283,075	445,441
Deferred tax liabilities	16,617	18,705	23,181
Income taxes payable	1,801	1,765	1,765
Trade and other payables	13,237	16,490	18,472
Retirement benefit obligations	9,176	8,021	7,908
Total non-current liabilities	310,013	328,056	496,767
Total liabilities	772,363	720,821	853,677
Shareholders' equity			
Share capital	226,058	225,854	210,774
Treasury shares	(66,487)	(4,666)	(19,686)
Share premium and capital reserves	(154,249)	(164,631)	(148,516)
Fair value and other reserves	(131,168)	(119,528)	(110,084)
Retained earnings	524,985	471,000	442,809
Total equity	399,139	408,029	375,297
Total liabilities and equity	1,171,502	1,128,850	1,228,974

TEMENOS GROUP AG

All amounts are expressed in thousands of US dollars

	Three months to 31 December 2016	Three months to 31 December 2015	Twelve months to 31 December 2016	Twelve months to 31 December 2015
Cash flows from operating activities				
Profit before taxation	63,360	44,760	132,107	78,083
<u>Adjustments:</u>				
Depreciation and amortisation	18,625	19,906	76,074	74,460
Other non-cash and non-operating items	10,190	17,543	37,725	47,574
<u>Changes in working capital:</u>				
Trade and other receivables	(13,269)	(1,772)	1,633	(12,547)
Trade and other payables, and retirement benefit obligations	18,088	10,103	2,821	11,857
Deferred revenues	59,408	70,743	7,267	27,765
Cash generated from operations	156,402	161,283	257,627	227,192
Income taxes paid	(3,133)	(2,792)	(10,356)	(10,890)
Net cash generated from operating activities	153,269	158,491	247,271	216,302
Cash flows from investing activities				
Purchase of property, plant and equipment	(1,934)	(1,310)	(6,142)	(6,187)
Disposal of property, plant and equipment	-	-	-	-
Purchase of intangible assets	(1,178)	(314)	(4,518)	(3,947)
Disposal of intangible assets	-	-	-	-
Capitalised development costs	(12,634)	(13,005)	(45,560)	(45,293)
Acquisitions of subsidiary, net of cash acquired	-	-	(1,581)	(297,726)
Disposal of subsidiary or business, net of cash disposed	-	26	489	34
Settlement of financial instruments	7,561	1,811	5,845	1,841
Interest received	48	17	132	68
Net cash used in investing activities	(8,137)	(12,775)	(51,335)	(351,210)
Cash flows from financing activities				
Dividend paid	-	-	(31,733)	(28,605)
Acquisition of treasury shares	(61,821)	-	(61,821)	-
Proceeds from/(repayments of) borrowings	84	(33,834)	(79,366)	(11,233)
Proceeds from issuance of bonds	-	-	-	190,568
Interest paid	(6)	(638)	(12,600)	(9,850)
Payment of other financing costs	(810)	(67)	(7,037)	(2,176)
Payment of finance lease liabilities	-	-	-	(31)
Net cash (used in)/generated from financing activities	(62,553)	(34,539)	(192,557)	138,673
Effect of exchange rate changes	(4,075)	(1,514)	(2,291)	(3,123)
Net increase in cash and cash equivalents in the period	78,504	109,663	1,088	642
Cash and cash equivalents at the beginning of the period	115,836	83,589	193,252	192,610
Cash and cash equivalents at the end of the period	194,340	193,252	194,340	193,252



Appendix II – reconciliation of IFRS to non-IFRS Q4 2016 Income Statement

Readers are cautioned that the supplemental non-IFRS information presented in this press release is subject to inherent limitations. It is not based on any comprehensive set of accounting rules or principles and should not be considered as a substitute for IFRS measurements. Also, the Company's supplemental non-IFRS financial information may not be comparable to similarly titled non-IFRS measures used by other companies.

To compensate for these limitations, the supplemental non-IFRS financial information should not be read in isolation, but only in conjunction with the Company's consolidated financial statements prepared in accordance with IFRS.

IFRS - Non-IFRS Reconciliation Thousands of US Dollars	3 Months Ending 31 December						Change	
	2016 IFRS	Adjustment	2016 Non-IFRS	2015 IFRS	Adjustment	2015 Non-IFRS	IFRS	Non-IFRS
Total Software Licensing	91,542	265	91,807	73,285	4,489	77,774	25%	18%
Maintenance	65,128		65,128	61,774	434	62,208	5%	5%
Services	34,124		34,124	33,329	119	33,448	2%	2%
Total Revenue	190,794	265	191,059	168,388	5,042	173,430	13%	10%
Total Operating Expenses	(124,320)	8,026	(116,294)	(118,245)	10,048	(108,197)	5%	7%
Restructuring	(260)	260	-	(1,127)	1,127	-	(77%)	
Amort of Acquired Intangibles	(7,766)	7,766	-	(8,921)	8,921	-	(13%)	
Operating Profit	66,474	8,291	74,765	50,143	15,090	65,233	33%	15%
Operating Margin	35%		39%	30%		38%	17%	4%
Financing Costs	(3,114)		(3,114)	(5,383)		(5,383)	(42%)	(42%)
Taxation	(7,450)	(828)	(8,278)	(6,439)	(1,500)	(7,939)	16%	4%
Net Earnings	55,910	7,463	63,373	38,321	13,590	51,911	46%	22%
EPS (\$ per Share)	0.77	0.11	0.88	0.54	0.19	0.73	43%	21%